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THE SENATE OF CANADA

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Proceedings of the STANDING COMMITTEE ON

CANADIAN TRADE RELATIONS

in respect to the inquiry into what, in their opinion, might be the most practical steps to further implement Article 2 of the North Atlantic Treaty.

No. 2

WEDNESDAY, APRIL 15, 1953

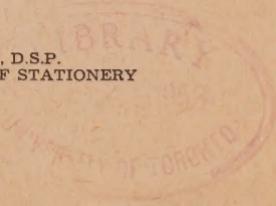
The Honourable A. N. McLEAN, Chairman

WITNESSES

Mr. H. H. Hannam, President, Canadian Federation of Agriculture.

Dr. E. C. Hope, Economist, Canadian Federation of Agriculture.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1953



CANADIAN TRADE RELATIONS

The Honourable A. N. MCLEAN, *Chairman*

The Honourable Senators:

Baird	Duffus	McDonald
Bishop	Euler	McKeen
Blais	Fraser	McLean
Buchanan	Gouin	Nicol
Burchill	*Haig	Paterson
Campbell	Howard	Petten
Crerar	Hushion	Pirie
Daigle	Kinley	*Robertson
Davies	Lambert	Turgeon
Dennis	MacKinnon	Vaillancourt—(30)
Dessureault	MacLennan	

35 Members—(Quorum 7)

*Ex officio member

ORDER OF REFERENCE

Extract from the Minutes of Proceedings of the Senate, Thursday, February 26, 1953:

"That the Standing Committee on Canadian Trade Relations be empowered to enquire into and report on—

1. What, in their opinion, might be the most practical steps to further implement Article 2 of the North Atlantic Treaty whereby the signatories to that document agreed that—"They will seek to eliminate conflict in their international economic policies and will encourage economic collaboration between any or all of them".

2. That notwithstanding the generality of the foregoing, the Committee be instructed and empowered to consider and report upon how, in their opinion,

- (a) any project for developing economic collaboration, specifically between the countries who are signatories to the North Atlantic Treaty, can be co-ordinated with the trade policies of other countries of the free world;
- (b) any project for developing economic collaboration between the countries which are signatories of the North Atlantic Treaty, might have the same degree of permanence that is contemplated in the twenty year Military obligation under Article 5 of the Treaty whereby "The Parties agree that an armed attack against one or more of them in Europe or North America shall be considered an attack against them all".

3. That the Committee be empowered to extend an invitation to those wishing to be heard, including representatives of agriculture, industry, labour, trade, finance and consumers, to present their views, and that the Committee also be empowered to hear representations from business interests or individuals from any of the NATO countries who might wish to be heard.

4. That the Committee be empowered to send for persons, papers, and records, and to secure such services as may be necessary for the purpose of the enquiry.

L. C. MOYER,
Clerk of the Senate".

MINUTES OF PROCEEDINGS

WEDNESDAY, April 15, 1953.

Pursuant to adjournment and notice the Standing Committee on Canadian Trade Relations met this day at 10.30 a.m.

Present: The Honourable Senators McLean, *Chairman*; Bishop, Burchill, Campbell, Crerar, Euler, Gouin, Haig, Hushion, Lambert, MacKinnon, MacLennan and Robertson.—13

Consideration of the order of reference of February 26, 1953, was resumed.

The following were heard:—

Mr. H. H. Hannam, President, Canadian Federation of Agriculture.

Dr. E. C. Hope, Economist, Canadian Federation of Agriculture.

Further consideration of the order of reference was postponed.

At 12.45 p.m. the Committee adjourned until Wednesday, April 22, 1953, at 10.30 a.m.

Attest.

JOHN A. HINDS,
Assistant Chief Clerk of Committees.

MINUTES OF EVIDENCE

THE SENATE

OTTAWA, Wednesday, April 15, 1953.

The Standing Committee on Canadian Trade Relations which was empowered to inquire into and report upon the development of trade between countries signatory to the North Atlantic Treaty, and with other countries of the free world, met this day at 10.30 a.m.

Hon. Mr. MCLEAN in the Chair.

The CHAIRMAN: Honourable members, I will call the meeting to order. This is the second meeting, as we all know, of the Canadian Trade Relations Committee since reference was made to us of a resolution introduced in the Senate on February 12 and, after considerable debate, was passed, and referred to us on February 26. I do not think we need to read the resolution again. We are all familiar with it.

We are highly honoured this morning to have with us representatives from the Canadian Federation of Agriculture. There is no other business preceding the hearing of the representatives from the Federation.

Hon. Mr. EULER: I move that they be heard.

Hon. Mr. HAIG: Seconded.

The CHAIRMAN: I now call on Mr. Hannam to come forward.

Mr. H. H. HANNAM, President of the Canadian Federation of Agriculture: Mr. Chairman and honourable senators, I have just one comment to make before I introduce our witness, Dr. Hope. We believe that it is important and urgent that the nations of the western world move in the direction of a common policy on trade and economic affairs. Members of the Senate are to be commended on undertaking this study on Canada's behalf. Even if NATO may not be the best grouping of these nations to carry through such a program they could well be the best group to take the initiative in launching it; and their Article II gives them the opportunity for doing so and, I think, implies some responsibility that they should. In any case they are the leading nations in world trade; they are the advanced countries and naturally they are world leaders. They have assumed responsibility for the survival of freedom for the future. Under this article they can and should act.

Dr. E. C. Hope, Economist for the Canadian Federation of Agriculture, will present our brief and be our witness. Before joining the staff of the Canadian Federation of Agriculture five years ago, Dr. Hope had won a name for himself as one of the leading agricultural economists in Canada. He was considered one of the leading economists, and he has been doing exceptionally good work for us. This particular presentation is a highly technical one from the economist's standpoint, and for that reason he has done the work for us and we are asking him to make the presentation.

The CHAIRMAN: We will now call on Dr. Hope.

Dr. E. C. HOPE: Mr. Chairman and Senators: I think this is the second time that I have been before a committee of the Senate. Last time you were very kind to me, and I anticipate that you will not be too rough on me this time also. Sitting there in the chair looking at the job the chairman had to get together the members of the committee this morning rather reminded me of when

I was running in politics in Saskatchewan some years ago, when we used to go into a politically rather tough section and find it difficult to get an audience, and the organizer would run up and down outside to bring in the people.

Hon. Mr. EULER: Into the highways and byways, eh?

Dr. HOPE: Yes. I will read this brief, and later on it may be that the committee will take the opportunity to ask questions on it.

THE DEVELOPMENT OF ECONOMIC COLLABORATION BETWEEN THE SIGNATORIES OF THE NORTH ATLANTIC TREATY

The North Atlantic Treaty Organization (N.A.T.O.) was established in the spring of 1949 by twelve nations¹ later enlarged to include fourteen, for the primary purpose of providing for a united system of defence for the West against aggression.

The spirit and purposes of the North Atlantic Agreement are indicated in the Preamble to the Pact. The parties state their determination to "safeguard the freedom, common heritage and civilization", of their peoples; to promote, "stability and well-being" in the North Atlantic area. They proclaim their resolve "to unite their efforts for collective defence and for the preservations of peace and security".

Most of the articles in the Pact deal with defence matters but the non-military aspects are included in Article 2. This Article reflects the conviction of the signatories that a true and lasting peace is more than mere absence of war and indicates their desire to contribute toward peaceful and friendly relations, "by strengthening their free institutions, by bringing about a better understanding of the principles upon which these institutions are founded, and by promoting conditions of stability and well-being". Specifically they agreed to try and "eliminate conflict in their international economic policies and will encourage economic collaboration between any or all of them".

In military collaboration, N.A.T.O. has made solid progress towards the establishment of a strong Atlantic community of defence. It has run into some trouble; all the nations have not agreed on a European army, but progress is being made. Unfortunately up to now, the same cannot be said with respect to collaboration to "eliminate conflicts in their international economy policies". A special committee of N.A.T.O. was set up to consider ways and means of implementing Article 2. Nothing really concrete came out of its deliberations other than the suggestion that freer migration between N.A.T.O. members would aid general economic betterment and create a more genuine Atlantic community. Incidentally, they did increase immigration a great deal for a while, but this last year it has been falling. Canada, among other nations has again this year reduced its quota on immigrants.

Possibly one reason for the lack of more positive recommendations by this N.A.T.O. committee was their reminder that all members of the organization already belonged to many world-wide organizations which are grappling with these economic problems on a multi-lateral world wide basis rather than an Atlantic community basis.

This thought has also been expressed by Mr. A. D. P. Heeney, when speaking at the Atlantic Community Conference, at Oxford in September, 1952, he said—"I am going to suggest to you tonight that we shall make our best progress toward the objectives stated in Article 2 if we are willing to

¹ In April, 1949, the plenipotentiaries of the following twelve states signed the North Atlantic Treaty: Belgium, Canada, Denmark, France, Iceland, Italy, Luxembourg, Netherlands, Norway, Portugal, Great Britain and Northern Ireland, United States of America.

In October, 1951, two other countries, Greece and Turkey were added to the Organization through the signing of the "Greece-Turkey Protocol".

look beyond the North Atlantic Organization for areas and opportunities of non-military collaboration". He went on to point out that rather than look to N.A.T.O. itself for a solution of our economic problems we would be wiser to work through organizations already set up to deal with such matters on a much broader scale than just the Atlantic Community.

To a certain extent we are inclined to agree that the proper approach to a solution of the economic problems of the free world is not to confine our attention solely to how the N.A.T.O. nations alone may seek to eliminate conflicts in international economic policies. Rather the approach should be to examine the problem on a much broader multi-lateral basis including all the free nations of the world.

THE SITUATION AT THE END OF 1952

The disruptions to international trade balances arising out of World War II have been deep and persistent and up until the present time have practically defied all attempts at a solution. Without going into too many details the causes of the unbalance in international payments may be said to stem from two major events:

- (1) The destruction of physical property in Britain and the continent of Europe and the slow process of restoring productive capacity to these areas. At the same time the productive powers of North America expanded during the war and have continued to expand at a rapid rate following the war. This situation has prevented the normal exchange of goods for goods.
- (2) The other important event has been the splitting of the world into two political camps—the communist-dominated world and the free world. The political struggle, particularly in Europe, for the minds of the people has in some cases made it extremely difficult for democratic governments to put into operation economic policies which would restore their competitive position in world markets. In other words for political reasons they have found it very difficult to balance their budgets and control inflation. Consequently their competitive position in world trade has been weakened.

In the post-war world international payments have been kept in a precarious balance by a shaky structure of intergovernmental grants and loans running into billions of dollars annually, but a growing impatience has appeared both in North America and Europe with a continuance of this artificial and temporary method of balancing international payments. The American taxpayer is becoming restless because he thinks he is called upon to pay too heavy a burden to maintain the economy of free Europe. On the other hand the recipient nations rebel at any suggestion of outside interference with their internal affairs which may accompany loans and grants. They are anxious to pay their own way and are beginning to express their views by the slogan, "Trade not aid".

Possibly one of the best analysis of the present situation in Europe is contained in the report of the Organisation for European Economic Co-operation (O.E.E.C.) for the year 1952. There is a mine of information on that volume, which is quite extensive. After indicating that Western Europe, at the end of Marshall Aid has made substantial economic progress they state that the general economic situation is still far from satisfactory.

The report points out that:

- (1) Production in the various countries of Western Europe is either not rising or rising at a relatively modest rate.

- (2) While much progress has been made towards a sound internal financial situation, there are inflationary tendencies in some countries and deflationary tendencies in others that stand in the way of stable development.
- (3) Disequilibria in the balances of payments of several member countries still exists.
- (4) Almost all countries have serious disequilibria in their balances of payments with the dollar area.
- (5) Progress in the liberalisation of intra-European trade has been halted and some important countries have had to reduce the scope of trade liberalisation, thus contributing to a decline in trade that is more general.

The member countries submitted forecasts which show the general expectation that, "on the basis of present world economic policies, a serious dollar disequilibrium will persist, and any balance of payments improvement will result from a decline in imports rather than from an expansion of exports".

It is clear that despite the progress made since the end of the war, a substantial dollar deficit persists. The following table adapted from the March, 1953, issue of the National City Bank Review shows the present extent of the world dollar deficit:

U.S. INTERNATIONAL PAYMENTS

(In Billions of Dollars)

Transactions Supplying Dollars

	1949	1950	1951	1952
Merchandise imports	\$7.1	\$9.3	\$11.7	\$11.4
U.S. Government expenditures abroad7	.7	1.2	1.6
Other services	2.4	2.6	2.7	2.9
(1) Goods and services total	<u>\$10.2</u>	<u>\$12.6</u>	<u>\$15.6</u>	<u>\$15.9</u>

Other Dollars Supplied

U.S. capital investments	1.2	.5	1.8	1.4
U.S. Government economic aid	5.2	3.7	3.0	2.0
Total	<u>6.4</u>	<u>4.2</u>	<u>4.8</u>	<u>3.4</u>
Total Dollars Supplied	<u>16.6</u>	<u>16.8</u>	<u>20.4</u>	<u>19.3</u>

Transactions Using Dollars

Merchandise exports	12.3	10.7	15.5	15.5
Less-military aid	—	.3	1.1	2.2
Net commercial exports	12.3	10.4	14.4	13.3
Other services	3.7	3.7	4.7	4.8
(2) Goods and services total	<u>16.0</u>	<u>14.1</u>	<u>19.1</u>	<u>18.1</u>
Deficit in International Payments	<u>—.6</u>	<u>—2.7</u>	<u>—1.3</u>	<u>—1.2</u>
Increase (+) or decrease:				
Foreign gold and \$ balances	<u>—.2</u>	<u>+2.6</u>	<u>+1.0</u>	<u>+1.0</u>
Errors and omissions	<u>†.8</u>	<u>† .1</u>	<u>† .3</u>	<u>† .2</u>
	<u>—.6</u>	<u>—2.7</u>	<u>—1.3</u>	<u>—1.2</u>

Largely as a result of the boom in raw material prices following the outbreak of the Korean War in 1950 the foreign holdings of gold and U.S. dollars increased sharply in 1950 but dropped off again in 1951 and 1952. In other words, the non-dollar areas improved their position for a short time through the rapid rise of raw material prices, particularly coming from sterling

areas. Then once the inflationary rise was over, prices began to fall and their positions deteriorated again because they were not getting such high prices for their wool, tin, rubber and cocoa.

In 1949 transactions supplying U.S. dollars for foreign nations amounted to \$10.2 billions. The gap was partly made up by U.S. capital investments of \$1.2 billions and U.S. Government Economic Aid (mostly Marshall Aid) of \$5.2 billion.

In 1952, transactions supplying U.S. dollars—that is, credits to Europe—had increased to \$15.9 billions of which \$1.6 was U.S. government expenditures in foreign lands for defence purposes. Transactions using U.S. dollars amounted to \$18.1 billions. The gap was partly made up by \$2 billions of economic aid.

United States international payments with the world were balanced in 1949 and 1952 as follows:

	1952	1949
Economic aid	\$2.0 billions	\$5.2 billions
Military aid	2.2 "	—
U.S. Government		
expenditures abroad	1.6 "	.7 "
Total	\$5.8	\$5.9

The persistence of the dollar deficit is an obstacle to economic progress in Western Europe. Some countries have small foreign exchange reserves and their inability up to this time to solve the dollar problem forces them to adopt restrictive trade practices. It is significant that what improvement has been made during the last year in their dollar position has been due more to restricting imports from the U.S. and Canada rather than to an expansion of their own exports to North America. It will be noticed from the above table that from 1951 to 1952 U.S. merchandise imports decreased \$300 million but U.S. commercial merchandise exports decreased \$1.1 billions.

The persistence of the dollar problem, now that Marshall Aid is completed shows that the deficit is not likely to disappear automatically under present international trade policies.

An action program is needed which will provide a solution to the dollar problem. It is likely that as long as the present pressing defence emergency persists United States military aid, off-shore purchases for defence purposes and United States and Canadian defence expenditures in Europe and Asia will bridge the gap, but it is expected that the present rate of these expenditures will soon decline and unless the central problem of dollar deficits in international balances is solved the world could very well be plunged into a shrinkage of trade as bad as that experienced from 1929 to 1933.

This problem undoubtedly could be solved by European, and other countries in payment difficulties, simply intensifying their restrictive practices against the imports of goods from the dollar area. By this means a kind of balance would be reached and maintained. In fact if nothing is done, that is likely what will happen, but such a solution would result in stagnation in the dollar areas of the world and a low level of subsistence in the remainder of the free world.

SOME POSSIBLE SOLUTIONS TO THE INTERNATIONAL PAYMENTS PROBLEM

There is no easy solution to the international payments problem. It is a world-wide problem and not just related to the policy of the United States alone, even if it is called the "dollar problem". For instance, it can be shown that the United States has progressively lowered its general tariff structure

since 1937 and today the U.S. tariff rates are lower than they have been for many years. Canada, another dollar area, has also lowered its tariffs over the last few years. This does not mean that we are suggesting that North American tariff rates should not be lowered still more, but we wish to emphasize that attacking the problem from the side of North American tariff rates alone is not a complete solution.

We feel that the attack on the dollar problem must be a co-operative one. It will require the co-operation of both the dollar countries and the non-dollar countries. Although the important position of the United States in the world economy necessarily makes actions by that country a dominant factor in any solution yet a lack of co-operative spirit by the non-dollar countries could well render any action by the United States alone ineffective.

Action By Western Europe and Its Dependencies

Although we in North America have complained about internal inflation since the war the problem has been a greater one in Europe. In some cases even successive devaluations have not been sufficient to compensate for the inflationary rise in price levels so that it has been difficult for them to sell sufficient goods in the dollar area to balance their international payments. Economic authorities within recent months have universally pointed out that monetary and fiscal policies by Western European nations coupled with an apparent refusal or inability to put into operation sound domestic policies have contributed largely to the disequilibrium in international payments.

The 1952 Annual Report of the International Monetary Fund, referring to the frequent recurrence of international payments difficulties states: (1)

Since the end of World War II the pressure of demand for consumption and investment goods and services has, for a wide variety of reasons, been allowed to pass beyond the limits set by the resources available. The efforts to translate into reality the widespread desire for economic security and betterment, or, in some countries, to check the deterioration of standards realized in the past, have been an important factor in this situation. More recently, rearmament programs have made further demands upon the limited supplies of resources ...

In their efforts to satisfy the competing claims of divergent social and economic objectives, many countries have adopted economic and monetary policies which have meant that they were attempting to live beyond their means ... Measures which it is feared will be unpopular are either not taken at all or taken only after long delay and then not pushed far enough.

Mr. Ivar Rooth, Managing Director of the Fund, discussed the impact of inflation on balance of payment difficulties in the following words:

The fact is that there is no greater threat to employment and living standards than inflationary policies which lead to payments difficulties. Continuous inflationary pressures and balance of payments deficits are bound to make it increasingly difficult to ensure the maintenance of imported supplies of raw materials and foodstuffs and therefore of full employment and high standards of living.

He points out that internal inflation tends to increase the international payment problem.

The O.E.E.C. Annual Report for 1952 goes very fully into the same matter. In the section called "European Responsibilities" it states:

Europe's over-riding responsibility must be the determination to live within its means and still secure other basic objectives. It must take the most realistic view possible of requirements from the outside world, and secure adjustments in its economy which will enable those requirements to be paid for out of current earnings.

(1) National City Bank Review, October, 1952.

Thus it is particularly countries in deficit with the whole outside world which must avoid any excess of monetary demand over available resources, so as to help secure equilibrium in their overall balance of payments. If the countries of Europe are to derive the fullest advantage from those external conditions which would afford them the opportunity of increasing their dollar earnings, it is essential that they strenuously resist inflationary pressures by appropriate internal economic and financial policies.

Now, those statements were not written by Americans and they were not written by Canadians. That is a committee of the European nations themselves. Their experts meet and go over the situation very carefully from year to year. It is true that Canada and the United States are listening partners, but they did not actually draft that themselves.

The political difficulties which beset most European countries and some of the Middle East and Far Eastern countries are real but often not fully understood by many people in North America. I mean, people in politics understand it, but people on the street, do not. Within recent years some of them, because of economic disruption as a result of the war, have had a very strong undercurrent of communist political strength. Democratic governments have only with difficulty kept themselves in power. For a time it looked as though some might fall to the extreme left. In fact if it were not for timely Marshall Aid the political map of Western Europe might have been different from what it is today.

Under the tremendous pressure of political events it has been almost impossible for some countries to push forward fiscal and monetary policies which would result in Europe living within its means. Lower cost of production through longer hours of work and a lag of wage rates behind rising prices, or controlling internal demand and prices by controlling bank credit, higher taxation and balancing the budget are all politically unpalatable diets to governments which are under terrific pressure from communist inspired agitation.

Another important factor which handicaps European efficiency in production is the multiplicity of relatively small markets. Each country is hampered by intra-European trade restrictions. That Europeans themselves recognize this as a major handicap to economical progress is a hopeful sign. The Schuman Plan for coal and steel is now starting to operate. Under this plan six Western European nations have agreed to the establishment of a common market for coal and steel by the progressive abolition of restrictions on trade in the form of tariffs, quotas and other discriminatory practices. Preliminary conversations have taken place regarding the possibility of having a similar single market for certain agricultural products.

In spite of the political difficulties which beset Western European countries, we feel that their contribution toward solution of the international payments problem must be a willingness to pursue sound policies which will enable their people to live within their means. In spite of the fact, we know it is difficult for them to do so, but there is no other solution, and if they are not willing to live within their means, then they have either to get loans to let them live beyond their means or else cut down imports.

Hon. Mr. BISHOP: Otherwise they go broke.

Dr. HOPE: That is right, otherwise they go broke. Now, when the war was over, when the Bretton Woods Conference was held, I think most people realize now that the people who sat around the table there drew up an agreement which looked all right in theory at the time, but it was not very realistic. They did not realize the political difficulties of making international balances work out, and the Bretton Woods Agreement was full of all kinds of

clauses, which in many cases would allow nations to continue practices which would prevent unbalanced payments. In other words, if you sit around the conference table, apparently every nation has some artificial props to maintain a certain status quo.

Hon. Mr. EULER: What about GATT in connection with that.

Dr. HOPE: GATT is very similar. The I.T.O. Charter also had many escape clauses.

There is no magic in this solution. As we have indicated before a good deal of the present international difficulties are due to the sharp differences in efficiency of production between the dollar and the non-dollar areas. Under some settled and stable international relations small differences in productivity are compensated by changes in prices and exchange rates, but since Bretton Woods most countries have stuck to rigid exchange rates and attempted to maintain these rates by a network of trade restrictions, but even these restrictions failed to hold unrealistic exchange rates with the result that the sterling area devalued about 30 per cent in 1949.

The devaluation resulted in a temporary improvement in the balance of payments but the lack of ability of European Governments to control their own international price levels compared with the price levels of the dollar area has almost wiped out all the advantage gained by the devaluation of three years ago.

First and foremost the non-dollar areas' most important contribution to the solution of the problem of dollar balance would be to achieve a structure of costs and prices that is in line with world market conditions. This objective can only be attained by a real conscious effort to restrain inflationary pressures by sound fiscal and monetary policies. A lower cost-price structure would improve the competitive position of European nations in the dollar area markets.

The other important contribution of Western European N.A.T.O. nations would be to embark on a broad liberalization of trade policy within Europe itself. They complain about North America, but in many cases they are doing the same thing themselves. The progressive lowering of tariff barriers within Europe and the elimination of import quotas would do much to stimulate competition and increase efficiency of production. A start could be made in the direction of a common European market for all goods by selecting a few key products at a time and forming a customs union for these products—in other words eliminate all tariffs and trade restrictions within Western Europe for such products. They have done much with coal and steel. If all the European N.A.T.O. nations could not agree on a customs union for particular products—then only those members who would agree could make up the free trade area. In other words, the coal and steel plan and the Schuman plan do not include them all. It includes six—but you could have a customs union with only three countries.

Thus we see that Western Europe's contribution to the balance of payments problem is to put her own house in order by maintaining internal financial stability and by making a concerted effort to liberalize trade within her own community.

Responsibilities of North America

The United States is now by long odds the wealthiest and most powerful nation in the world. Both from the point of view of its imports and exports the impact of its trade has a vital influence on the economies of the Western world. Over the years the United States has gradually changed from a debtor to a creditor nation and for this reason there needs to be a basic change in her economic policies if she is to be able to give the necessary leadership to the Western world.

During the post-war period of reconstruction the United States has lived up to its responsibilities in keeping with its economic strength by the generous use of large outright grants and to a lesser extent loans, for the rehabilitation of Western Europe, the Middle East and Japan. It has cost the American taxpayers between \$5 and \$6 billion a year, but this policy cannot go on indefinitely. It must come to an end. Both the American taxpayer and the recipient nations are apparently agreed that a more realistic and lasting solution must be found to the so-called "dollar problem".

Hon. Mr. EULER: Is it not at an end now?

Dr. HOPE: No; they are still giving military aid, off-shore purchases and economic aid, enough to balance total payments. Their economic aid has dropped to \$2 billion, but they are increasing their military aid. Now we hear that Eisenhower and Dulles are proposing to stretch out this aid to Europe.

Hon. Mr. EULER: But it is only of a military nature.

Dr. HOPE: Both will be reduced; but they are reducing to \$2 billion their economic aid. I believe it is still standing at \$2 billion for this year.

We pointed out that the solution to the problem is a co-operative project. We have indicated how the countries of Europe can do their part. The responsibility of the United States is to create conditions which will make it possible for the rest of the world to earn its requirements of dollars through normal international trade and commerce.

Economic Stability

The United States is the world's largest buyer of such raw materials as tin, wool, rubber and cocoa which are produced in the sterling area. It is also a large buyer of many other raw materials such as copper, lead, zinc, forest products and oil. Over a period of time that country is going to become a greater buyer. Its own resources are going down and are not keeping pace with its economic development. In time it should therefore become a much more important buyer of raw materials. Changes in the rate of buying of these products by the United States has a very significant effect on the balance of payments of the non-dollar areas of the world. It was largely the violent change in the United States buying of these products in 1950, 1951 and 1952 which caused a rapid improvement in the dollar balances in 1950 and then a sharp reversal in 1951 followed by the restrictions on imports by sterling countries in 1952. Canada has felt that too. Therefore the United States would make a significant contribution to stability in international payments if it would pursue a policy of more orderly purchases of raw materials for stock piling. In the longer view also government action to keep recessions within reasonable bounds would have a significant effect on stability in international payments. Any material drop in United States imports as a result of even a moderate depression would have a serious impact on the economies of many countries whose dollar reserves are low. They are so low today that if the United States encountered a depression and started to curtail her imports, it would mean trouble for some countries.

The United States is now a much more important factor in the total world economy and her responsibility in that connection is therefore greater than it was in 1929, and it was more important in 1929 than it was in 1890. The bigger she gets the more her responsibility grows.

Foreign Investment

Most of the foreign investments of the United States have been made in Canada or South and Central America and in the Middle East. That is mostly for the development of oil. Certainly an expansion of United States investment in the non-dollar area would be of material help in solving the dollar problem

—providing private investors would be willing to take the risks. But it is likely that if any large scale investments should be made they would have to be backed by the government against non-commercial risks;

in other words, political risks. A man will invest his money on a straight commercial risk; he figures on that. But it is another matter to ask him to make an investment and take into account political risks in foreign lands, such as was taken in Iran. Yet the people of some countries are asking us to do that very thing. Likewise the government of the receiving country might have to negotiate a special treaty with the United States to allow the complete convertibility of earnings from the investment. In other words, if the people have invested money in countries like South America, how are they going to know when the business is showing a profit, and if it does show a profit, how are they to get their dividends out of that country? The government of today might sign an agreement providing for it, but if a new government comes into power they will tear up that agreement as a scrap of paper.

In view of the unsettled world political situation it is unlikely that private investors will look with favour on foreign investments in some Western European countries or the Middle East. Nor is the American Government likely to make large foreign investments except as they are a part of the point-four program for undeveloped countries. In other words, if it goes down the drain, it is gone; but with a straight economic investment, I doubt if they would allow that to happen.

Need for a New U.S. Tariff Policy

The extent of the present unbalance in international commercial payments is readily seen if we eliminate United States economic and military aid and Government defence expenditures in the non-dollar world. On the basis of commercial payments alone the non-dollar world has a present deficit of between \$5 and \$6 billion which amounts to about 50 per cent of present United States imports of goods or one-third of imports of goods and services. That means, one-third of her credits on imports and services combined. That illustrates how big it is.

Unless the non-dollar countries are able to increase their earnings of U.S. dollars to compensate for the anticipated reduction in United States economic and military aid, the United States will face a serious reduction in her export trade due to restrictions against her exports by the non-dollar world.

It is happening today in the export of her farm products. Her exports in that regard have dropped off materially within the past twelve months, because overseas people haven't the money to buy their farm products.

Hon. Mr. HAIG: That applies to Canada too.

Dr. HOPE: Yes, in some cases.

A curtailments of exports would result in a business recession which would be followed by curtailment of imports with a reaction upon Europe. Thus a vicious spiral of world-wide deflation would set in just as it did in 1929 when the inability of Europe to service its war debts in U.S. dollars was one of the major factors initiating the world-wide depression.

Fortunately an increasingly large number of responsible American citizens are becoming aware of this impending danger. There is no need for us to list in detail the important citizens of the United States, nor the influential organizations or groups which have recently made public statements in this matter, but we would like to refer to what we consider the most significant and important of all these statements.

In 1952, President Truman appointed an authoritative committee to study and report on "a Trade and Tariff Policy in the National Interest". As your committee will no doubt review this report it will not be necessary for us to discuss in detail all its findings.

Some people in the States thought that Eisenhower would not publish the report, because the committee was one which was appointed by Mr. Truman a year or so ago; but President Eisenhower released it to the public recently. We would like to list the important recommendations, which were as follows:

- (1) That a new simplified tariff act be adopted, providing for a general reduction of duties.
- (2) That tariffs be reduced, and quotas on agricultural products be liberalized to allow freer import of goods that are not produced in the United States in sufficient quantities at world prices.
- (3) That tariffs be reduced and in some cases ultimately eliminated on metals and minerals of which imports are a major part of U.S. supplies.
- (4) That the President be authorized to enter into reciprocal trade agreements without limit of time and with power to reduce tariffs, within specific limits, in return for reduction in tariffs or restrictions by other countries.
- (5) That a customs simplification procedure bill be passed by Congress. It has been brought up before, but it never seems to get very far.
- (6) That special cargo preference for domestic carriers for American loan and aid shipments be withdrawn.

They have a special provision whereby aid in kind to Europe must be transported in American ships. Europe gets a lot of its dollar credits from the shipping trade and objects to this. But preference is supported on the ground that the needs of the last war showed that the lack of American shipping was so great that the building up of their shipping in case of war amounts to a national necessity.

- (7) That the Congress take the necessary steps to enable the United States to join in establishing an international organization to promote the objectives of the General Agreement on Tariffs and Trade (G.A.T.T.).

In other words, the United States had the opportunity of ratifying the Havana charter, but did not. It is suggested that they shall meet again and bring up the matter of this international agreement, and joint it.

We cannot do more than say that we support the basic program for the liberalization of American international trade policy as outlined in the above recommendations. If the American government should implement these recommendations then the future for balance in international transactions will be very bright. If they do not, the future is indeed bleak.

Price Support Programs for Agricultural Products

The above-mentioned Committee admitted that "imports of commodities for which there are domestic price assistance programs pose a major problem". The United States protects its agriculture by a parity price support program. The support mechanism is a complicated framework of purchase, marketing agreements and loans backed by quantitative import restrictions, tariffs and

import fees. The committee did not make any significant recommendations with respect to changes in trade policy in agricultural products. What changes were suggested would not likely be accepted by American agriculture.

In other words, they did not comment on the basic thing, which was their high price support program. It was not dealt with at all in that report. They said, "We have to have price supports to maintain our system." They did not criticize the 90 per cent of parity nor even the formula they use. What they suggested was that they should revoke section 104 of the Defence Act, under which they are allowed to have quotas and restrictions on dairy products, and other products as well. Under that act some products have been completely banned. For the same purpose, if they wished they could use section 22 of the Agricultural Adjustment Act. Today the administration is trying to persuade Congress to abolish section 104 of the Defence Act, so that they will not have power under that act to restrict imports of food products. On the other hand they are asking the Tariff Board to give them complete study on every single agricultural product from overseas which is being restricted today. Section 22 of the Agricultural Adjustment Act—the old triple "A", is used to regulate imports and to support their price control program. Under that act they can restrict imports to the extent of 50 per cent of a previous period only, whereas under section 104 of the Defence Act they could ban them completely. I believe the present administration is trying to wean, if possible, the American farmers away from some of their extremely restrictive practices; but again, politically, it is an extremely difficult thing, because during the election, as you know, Eisenhower went out west and promised that the government would not do anything less than the Democrats would; that is, support the price of agricultural products for the next two years at 90 per cent of parity. In the case of some products the support may vary from 75 to 90 per cent; for instance butter. But, that promise having been made during the election, it is a difficult and slow process to gradually recede from some of the pledges they made at that time.

World production, consumption and trade in agricultural products is probably one of the most dominant economic factors in the world economy. Because of the world-wide inelastic nature of agricultural production, and because of variability of production due to weather, prices for the raw materials of the farm are highly unstable.

These things cannot be changed overnight. We know, for instance, that in Canada the farmer cannot change his plans very readily; he starts with one product and goes on for quite a while, regardless of price. The same thing is true of the world market. Even if there is depression, certain farm products will continue to be produced, with the result that production is inelastic, and it has a very serious price effect.

Since the 1930's practically all countries of the world have by unilateral action established domestic programs in an endeavour to protect their agricultural producers against the extremes of the completely free market. The programs vary widely from country to country.

It is all very well saying that this or that thing should not be done. A person can make a very sound argument on the basis of economics that price should govern all these things. But politically, in the world as it is today, it cannot be done. That is the end of it.

Hon. Mr. HAIG: Hear, hear.

Dr. HOPE: The peoples apparently have refused any longer to allow a completely free market to regulate production. That does not mean to say that all of them want complete planning.

Hon. Mr. CRERAR: If we proceed on that course, Dr. Hope, what is the end of the journey?

Dr. HOPE: I would say there are two ways. If we proceed on the course of a completely free market determining all these things, I think we would have communism in Europe very soon, and probably in the rest of the world. It is a hard thing to say, but it is confirmed by the many turnovers of governments. The people are partly ignorant, and partly influenced by a not unnatural feeling that there is something coming to them, too, because they know that other groups have got protection. Industry and labour have had protection, and the farmers feel that they should have it, and if they do not get it they are going to turn a government out.

Hon. Mr. CRERAR: What interests me in your argument is that, if this is necessary to promote stability, what is to be the end of the road?

Dr. HOPE: If you want to go the "whole hog" and try to get complete stability, or, as is advocated in some countries, share the risks to the extent that you eliminate practically all risks, you will finally come to a completely planned economy and complete socialism; and you can drift into communism.

Hon. Mr. CRERAR: And steadily diminishing freedom and liberty in the world?

Dr. HOPE: Yes. But there is one thing which is astonishing in this connection. I often used to think that way, until I read the report of an editor from Canada who went to Sweden about three years ago and interviewed the Prime Minister. As you know, Sweden has what is called a Social Democratic Government, and has had it for some years. But Sweden is often said to have a "middle-of-the-road" government. It has been in power for some years, and in their political campaigns its supporters used to employ, to get into power, arguments on the pattern of an extreme planned economy; but when they got into power they did not do all these things. When the editor from Canada asked their Prime Minister, "You have now got complete control; if you want state ownership of everything you can get it by passing the necessary laws; yet, although you have been in power a long time, you have gone only about one-quarter of the way in that direction; why do you not go ahead?" The Prime Minister's answer was, "We have gone about as far as we feel the people want us to go. We know that if we go further we can lose liberty and freedom." That was the admission of a man who basically was a strong planner and Socialist, but who had realized through experience, and whose people had come to realize after having had a good healthy instalment of a planned economy, that beyond a certain point it is dangerous to go. To me that is a rather hopeful sign, because I fear that to continue in the way that some states are going means that they will end where Russia is. But most people who are sufficiently intelligent, and who love freedom, are ready to stop when the government has gone so far, and will accept a certain amount of instability and of insecurity as the price of freedom. One thing offsets another.

Hon. Mr. CRERAR: But ten years later they may be willing to go several steps further.

Dr. HOPE: Well, of course they have their own choice. They can do so if they wish to.

Hon. Mr. BURCHILL: Could not that reasoning be applied also to Great Britain?

Dr. HOPE: Yes, but I think the people realized that the Labour Government had imposed enough controls. I am not trying to predict that the Labour Government will not come back to power; probably there will be another little swing in that direction.

Hon. Mr. HAIG: You have a good illustration in Canada. There is no need to go to Britain.

Dr. HOPE: But basically, if people value their freedom, there are some freedoms they won't give up.

Hon. Mr. HAIG: Why do you not mention Alberta? In 1934 you were in Saskatchewan and I was in Manitoba. I heard that in Alberta they promised \$25 a month to everybody. Did they carry that out?

Dr. HOPE: No.

An Hon. SENATOR: They have found oil.

Hon. Mr. MACKINNON: They have done better!

Hon. Mr. CRERAR: Do you think that the general sense of the value of freedom is as strong today as it was, say thirty years ago?

Dr. HOPE: Probably it is not quite so strong. It is hard to say. I was not living here thirty years ago.

Hon. Mr. CRERAR: I mean, generally in the United States, in Canada and in Great Britain?

Dr. HOPE: Today the amount of literature discussing freedom and liberty is terrific. We are deluged with articles, advertisements, and speeches on the subject. Forty years ago, as I remember, it was hardly discussed. I think that today people are more conscious of the danger. That is why I have the impression that they will go only so far in getting what they want and in surrendering some of their basic freedoms. Maybe I am wrong, but I have faith in the individual. I believe there are certain basic freedoms he will not sacrifice, although he is willing to go a certain way.

Hon. Mr. BEAUBIEN: But he might lose them gradually, without knowing what the results would be.

Dr. HOPE: Yes, he might. We have to take that chance, of course.

Hon. Mr. MACKINNON: Have we finished with the brief?

Dr. HOPE: For some years the International Federation of Agricultural Producers of which the Canadian Federation of Agriculture is an active member, has advocated the establishment of an international program designed to encourage expanding production, distribution and utilization of food in the interest alike of consumers and producers. Plans for such a program have envisioned an effective international agency, equipped and financed to handle the disposal of agricultural surpluses, to ensure that they are directed to areas of greatest need and in such a way that they would not be allowed to undermine the world price structure.

Two plans for a complete international program have been considered by the Food and Agricultural Organization of the United Nations. The first was the proposal for a world food board put forward by Lord Boyd Orr and the second was the proposal for an international commodity clearing house recommended by an FAO committee of commodity experts. In both cases governments in FAO backed away from these proposals. However, the FAO organization is at present attempting to work out plans for an emergency famine reserve, which would meet part of the requirements of such a program. Significant too is the fact that a group of congressmen in Washington are at the present time attempting to revive and promote the idea of setting up an international food reserve.

A worthwhile international food program would be valuable from a number of angles. It would:

- (a) Supplement and encourage trade in food stuffs.
- (b) Help to bring about more stability in international payments.
- (c) Encourage expanding agricultural production in exporting countries by removing the risk of unsaleable surpluses piling up undermining prices and disrupting production.
- (d) Provide stocks which could be used for an international emergency famine reserve, and
- (e) Help to allay hunger amongst under-nourished people which is one of the practical means of meeting the challenge of Communism.

The unstabilizing effects of rapid changes in prices of farm products entering into international trade cannot help but cause sharp changes in the balance of payments between countries. Already we know that through its domestic price support program the United States Government is accumulating large supplies of wheat and certain dairy products, as well as a large quantity of corn. Should the United States Government decide to dump these products on the world market—and that government today holds \$1,600 million worth of farm products—it would have grave repercussions on the entire price structure for farm products. Moreover on the basis of the present United States parity program even a moderate drop in domestic demand would result in a very rapid accumulation of a wide variety of agricultural products in the hands of the government. The same can be said with respect to a fall in domestic demand in Canada if the Government should step in to support farm income in such an emergency. In the competitive race to dispose of these surplus products off-shore at fire sale prices, the whole balance of payments structure would be disrupted because country after country would rapidly move to impose restrictions on imports to protect their own farm economy against such subsidized dumping.

It is true that G.A.T.T. discourages such practices, but then G.A.T.T. has never been officially ratified by the United States. Even if it had been ratified the system would likely break down because G.A.T.T. alone leaves a vacuum. It discourages such practices in an international emergency, but at the present time no international agency is set up to cope with such an emergency.

Therefore we would suggest that as a means of removing future conflicts in policies with respect to international trade in farm products that the nations of the world should again actively explore the possibilities of establishing some international agency which on a world-wide multi-lateral basis would shoulder the task of the distribution of periodic agricultural surpluses in such a manner as to cause the minimum of disruption to world trade in these products. Without such an agency we feel that farm price and income support programs in various countries can only lead to future restrictions in international trade in farm products.

Canada's Role

Although on a smaller scale than the United States, Canada has an important part to play in restoring the dollar balance of the free world. Generally speaking, we feel that Canada has pursued an enlightened policy with respect to international trade. Our tariff structure is not unduly high. Our customs procedure is efficient and effective. Appeals to the Tariff Board are relatively free from long delays and red tape. From our experience in dealing with the Tariff Board, the Department of Finance and National Revenue

—and we have had a good deal of experience with those three departments—we would say Canada's administrative procedure with

respect to tariffs and trade is carried out in an expeditious, fair and efficient manner. I have spoken to the agents in Canada, some of the major importers and I have asked them whether they would criticize our tariff procedure. They have told me that it was not bad at all, that we had a very good system with respect to administration.

Canada is one of the signatories to the Geneva Trade Agreements and as such has taken an active part in attempting to bring about a greater freedom of trade through a lowering of tariffs and minimizing other restrictions to trade.

Although we have stated that we do not consider that Canada has a high customs tariff structure, yet we feel that there are quite a number of customs duties which could be lowered without doing serious injury to the industry concerned. We might mention a few of them.

Aluminum—Canada is one of the leading countries in the world in the manufacture of aluminum and probably the lowest cost producer.

—for instance, Canada has the lowest cost hydro electric power production in the world today, power is a very important cost in aluminum production. The *London Economist* has published a special issue giving the details on it. Under British Preference semi-fabricated aluminum is free but the M.F.N. duties range from 2 cents per pound to 30 per cent ad valorem on some types. Under British Preference manufacturers of aluminum, such as kitchen ware bear a duty of 15 to 20 per cent and under M.F.N. tariff the rates run $22\frac{1}{2}$ per cent to $27\frac{1}{2}$ per cent. And we have the cheapest raw products in the world today. We export far more aluminum products than we import. Surely here is an industry which could very well stand some reduction in its protection.

Copper—Canada is a low cost copper producer with a heavy export trade in practically all copper products, such as bars, tubing and wires. Some categories are free under British Preference, some bear duties of 5 to 20 per cent. Under M.F.N. the duties range from 10 to 20 per cent.

Lumber—Canada is one of the world's largest producers of this basic material. It is one of our most important export products. There are no duties on lumber entering Canada—unless it is dressed on both sides—then the duty is 10 per cent. If it is dressed on the one side it is duty free.

Canada is a major producer of plywoods and wood veneers. We pioneered in that development. Last year we exported \$16 million worth of this product—ten times as much as we imported, yet Canadian duties range from 15 to 25 per cent.

Rubber Tires and Tubes—The raw rubber enters Canada duty free but tires and tubes for autos, buses and bicycles bear a duty of $22\frac{1}{2}$ per cent British Preference and 25 per cent M.F.N. Last year we exported these products to the extent of \$12 million, considerably more than we imported. Our exports of tires and tubes were a little more than \$5 million to the U.S. and imports a little less than \$7 million.

It can be seen that we have almost balanced our trade with that country, and they have duties against us in the same way as we have against them.

Textiles—Raw wool and cotton enter Canada duty free but practically every manufactured article from these materials under the British Preference are dutiable at 5 to 20 per cent. Under M.F.N. the rates range from 10 per cent to $27\frac{1}{2}$ per cent. In some cases the duties are $27\frac{1}{2}$ per cent plus 3 cents per pound.

We have cited just a few examples to indicate where we believe some tariff reductions could be made without too much hardship. It is to be hoped that at the next meeting of the participating nations of G.A.T.T. that Canada will take the lead by offering a number of tariff concessions in return for similar treatment from other countries. It is our belief that if a close study were made of the entire tariff structure many places would be found where in the national interest duties could be lowered to increase competition in the Canadian market from foreign or British goods.

It is of interest to remember that for some years now all farm machinery (with the notable exception of farm wagons, which bears 15 per cent duty) has entered Canada duty free from all countries. The Canadian farm machinery industry has flourished and now exports to many countries. Considerable farm machinery is also imported into Canada. We are convinced that other domestic industries could also stand more world competition without serious injury.

Hon. Mr. CAMPBELL: Could that not be continued by means of a right to export to other countries?

Dr. HOPE: I fully agree with that. But when we come to GATT, we take it commodity by commodity: We will lower the tariff here if the other country will give us a break there. We cannot give away our souls; we have to make a deal. I think we could deal to advantage, as between Canada and the United States, and with other countries. I think GATT has made some progress with respect to trade restrictions; but we are seeking to have the process continued in order to get lower tariffs. Of course I do not say that we have yet a customs union with the United States, although I notice that on nearly all farm products, the United States tariff is about the same as our own. Perhaps the tariffs could be lowered both ways, and be of advantage to both countries.

Hon. Mr. EULER: Do you say as a matter of general fact the United States duties against our products are the same as we place against theirs?

Dr. HOPE: On farm products only, they are almost identical; that covers hogs, cattle and so on.

Hon. Mr. EULER: But that does not apply to many other commodities.

Dr. HOPE: No; on the others they are on an average higher.

Hon. Mr. MACLEAN: The United States duties are higher?

Dr. HOPE: Their duties are higher than ours on industrial products.

Hon. Mr. CAMPBELL: But farm machinery is free?

Dr. HOPE: It is free all over the world. We are free with Britain too: She has the opportunity of shipping farm machinery in here. If she can bring in a good tractor in competition with Canadian and American manufacturers, she may do so. Her only handicap is by way of setting up proper servicing and repair outlets. I myself had an experience with an English tractor on my farm. It has a special oversize tire, and I was not able to get a replacement short of sending to England for it.

Hon. Mr. EULER: Is it not true that while the tariffs between Canada and the United States with respect to farm products are about equal, that the United States maintains certain restrictions?

Dr. HOPE: On some products, yes.

Hon. Mr. EULER: For example, there are all sorts of restrictions exercised at the border.

Dr. HOPE: They have health regulations, and so forth.

Hon. Mr. EULER: They are not necessarily tariff restrictions.

Dr. HOPE: They have valuation procedures and so on which are difficult to go into.

Canadians are very prone to criticise the tariff policy of the United States, but we are in bad taste if we are not willing to make some concession ourselves in order to help the world move in the direction of freer trade on a multi-lateral basis.

The N.A.T.O. nations can best eliminate conflicts in their own international economic policies if they will take the lead in policies which will bring about a balance in international payments without recourse to governmental loans and grants from the dollar area. A balance can be achieved on a basis of restricted international trade. The non-dollar area could continue reducing its present policy of imports from the dollar area by increasing tariffs, restricting exchange and clamping on quotas on imports, but this would be a policy fraught with grave danger to the entire economic system of the free world. Balance must be achieved on the basis of an expanding rather than a shrinking international trade.

The obligation of the non-dollar area is to control internal demand and price levels, and increase their efficiency of production so that their export products will be more competitive in dollar areas.

The obligation of the dollar area—and particularly the United States—is to make it possible for the non-dollar area to earn enough dollars to pay their own way. Specifically the dollar area needs to lower its tariff structure still more and to remove as much as possible all other impediments to importers. They can also assist by continuing and expanding their technical and financial assistance to under-developed nations. Investments in foreign lands would help some, but it is unlikely that this would be an important factor in view of the international political situation.

Once a balance is obtained the next objective should be to take steps to reduce year to year instability in international payments. Should it be necessary to have further governmental stock piling by the free nations more co-operation and planning between governments would help to prevent violent changes in demand for raw materials.

As an aid in long term stability of international payments we believe an international agency to handle agricultural surplus products would be of considerable help.

That concludes my brief.

The CHAIRMAN: Do honourable senators have any questions to be asked of Dr. Hope?

Hon. Mr. HAIG: Dr. Hope, is it possible to reconstruct the N.A.T.O. world without bringing the countries within that organization up to a common standard.

Dr. HOPE: No, not exactly. The difference of efficiency in production is a factor. A nation that is more efficient in its production processes can have a higher standard of living than a nation which is less efficient.

Hon. Mr. HAIG: But if I in Canada am efficient and can produce cheaper than in the United States, I can sell my product cheaper on the world market.

Dr. HOPE: Yes.

Hon. Mr. HAIG: If I work forty-eight hours a week, while you in England work only forty hours, you cannot hope to compete with me.

Dr. HOPE: That is another factor. But it is true that with the basic difference in efficiency of production, you can still have a balance of trade. That is true even though a country like Japan may have a very low standard of living, while ours is high. Its differences in efficiency could compensate for the difference in price levels.

For instance, Bretton Woods decided to fix exchange rates, and that immediately caused trouble. It may seem strange to hear me criticize a body of experts, but I recall very well when the Bretton Woods Agreement it was

decided to fix exchange rates and to give each nation six months in which to establish its exchange rates, and from then on it would be held at a rigid rate. They worshipped the rigid rate of exchange to the extent that nations would be permitted only a narrow margin of variation. This automatically destroyed the effect of efficiency in production, and brought about inflation. Today Canada has a free dollar, and I think that it is to our advantage.

Hon. Mr. EULER: You seem to want to work through NATO. Do you not think it would be to the advantage of all if Germany were admitted to membership in NATO?

Dr. HOPE: Germany is in NATO now.

Hon. Mr. EULER: Not in NATO.

Dr. HOPE: Germany is going to be brought into the European community plan.

Hon. Mr. EULER: But that is a different thing.

Hon. Mr. LAMBERT: For defence purposes.

Dr. HOPE: For defence purposes. And she is applying to get into GATT. Certainly it would be an advantage to have Germany a member of NATO. Why leave her out?

Hon. Mr. EULER: That is what I was thinking.

Hon. Mr. HAIG: Coming back to my question: How can a country like Great Britain, which for the past five or six years has not been producing as much per man as the United States has, trade with that country?

Dr. HOPE: They can trade by having their exchange rates adjusted, and by producing a few products in which they excel. You might ask how it was we could trade with Japan in the prewar years, when she had such a low living standard. The fact is that in some products they could beat us.

Hon. Mr. HAIG: We had a heavy tariff against Japan.

Dr. HOPE: I know that, but in some products they could successfully compete with us.

Hon. Mr. HAIG: And still pay our tariff.

Dr. HOPE: Yes, even over our tariff.

Hon. Mr. EULER: They are beginning to do that now, are they not?

Dr. HOPE: Yes, Japan is doing that in some products.

Hon. Mr. HAIG: And Germany will be doing it.

Dr. HOPE: Germany and Japan are going to be the two tough spots which may force some change in American policy. They have got to export and the United States will have to import.

Hon. Mr. HAIG: And they are a progressive hard-working people, both of them.

Dr. HOPE: Yes.

Hon. Mr. HAIG: They will dominate the world trade unless the rest of us are willing to work and produce the way they do.

Dr. HOPE: I have this theory, with which, perhaps, nobody would agree. I hate to say it, but I believe I expressed it at a meeting here before.

Hon. Mr. HAIG: I want to suggest something to the chairman. The witness is here representing the Canadian Federation of Agriculture. I want him to feel free in answering us. He is not binding the Federation of Agriculture.

Hon. Mr. CRERAR: I don't think anybody would undertake to bind the Federation of Agriculture!

Hon. Mr. HAIG: Mr. Hannam might, or he might try. But I was referring of course to the Canadian Federation of Agriculture.

Dr. HOPE: Being free from commitments, I would say that I have had the feeling for some time, and what I have been studying lately confirms it, that a large block of the world is shifting to socialism, or in that direction. In other words, a large block is shifting to a planned economy.

Hon. Mr. EULER: There is no doubt about that.

Dr. HOPE: And the nations which are shifting to a planned economy are going the road to the welfare state; and the combination of welfare state and planned economy, if brought about before they get their efficiency up high, tends to make them high-cost countries. That is what has resulted in a good part of Europe, and therefore, even for a while, as the rate of change in productivity diverges it makes trade more difficult, especially if you have rigid exchange rates. Then they attempt to balance by restrictions. If you have a rapid change in efficiency between two nations, that process destroys the ability to trade; but if you have a stable condition between the two, the opportunities of trading would not be so restricted.

Hon. Mr. BURCHILL: To come back to your point about the relation between the flexibility of the exchange rate and the inefficiency of production: you claim that you can protect the inefficiency of production by making your exchange rate flexible.

Dr. HOPE: Yes, if you have a flexible exchange rate it finds its natural level.

Hon. Mr. BURCHILL: In other words, if production is inefficient the value of the currency of that country would decrease?

Dr. HOPE: Trade would have to flow somehow or other, and if it is to flow at all the exchange rate and the price would compensate each other over a period of time, and their money would fall in value.

Hon. Mr. BURCHILL: But the fall in value would compensate for their inefficiency?

Dr. HOPE: Yes, it would have to. And the fact we have decided to worship fixed exchange rates means that we take one of the automatic adjustments away, and if you try to take its place by either loans, gifts, or restricting imports, it is not economic any longer. That was a new philosophy, born in the war.

Hon. Mr. HAIG: But you do not believe in it?

Dr. HOPE: I do not believe it can be done.

Hon. Mr. HAIG: That is where I agree with you.

Dr. HOPE: It could be done if European nations are willing to try to raise their efficiency, and we lower our tariffs a bit. But if we cannot get them to raise their efficiency, and we will not lower our tariffs, what will happen is that they will continue to block trade, or there will be another huge revaluation. Britain is trying to avoid that possibility, because if the pound goes down again it will wreck all the confidence of people who have money balances in Britain.

Hon. Mr. CRERAR: Do you think it is possible to get the maximum amount of efficiency in a completely welfare state?

Dr. HOPE: No, I do not think you can.

Hon. Mr. CRERAR: I have come to that conclusion also. For instance Britain, before the war, exported 40,000,000 tons of coal, mainly to European countries, some to the Argentine, some to other countries in South America. That was a tremendous factor in their balance of payments. But the progress of the welfare state in Britain and the shorter working hours for miners, and higher pay, and that sort of thing, has resulted in Britain today being able to do little more than provide enough coal for her own requirements; and she has lost a valuable export. I think your paper—if I may say so—is a very admirable paper.

Some Hon. SENATORS: Hear, hear.

Hon. Mr. CRERAR: There are some phases of it on which I should like to ask some questions. With your general thesis of the effect of barriers to trade I am in agreement. With your suggestions about certain industries in Canada that could reduce their tariffs I am completely in agreement also. I recall that thirty years ago, when, along with a few others, I was advocating the elimination of duties on agricultural implements, I was told that I would wreck the agricultural implement industry in Canada. Yet it has progressed steadily under complete freedom, and is today one of the prize agricultural implement industries of the world. So that it does not necessarily follow that these restricted policies are essential to sound development. I am against restrictions of all kinds. To take an ordinary subject—and here I am treading on very dangerous ground—consider the trade in margarine, for instance.

Hon. Mr. BEAUBIEN: Why bring that up?

Hon. Mr. CRERAR: Well, for illustration. In the matter of margarine our Canadian farmers are rather inclined to certain restrictive policies. Is that compatible with the general principle of the abolition of restrictive policies? The same consideration is true as regards the United States, for instance in respect to the amendment that was put through to their Defence Act a year ago, affecting dairy products. It all boils down to this; that while you, an economist, Dr. Hope, and others with you can set out for us what I think is a very clear statement, the difficulty comes—and you put your finger on it—when you deal with the political difficulties which are associated with this thing.

Dr. HOPE: That is true.

Hon. Mr. CRERAR: And those—to me—do not appear to be diminishing.

Dr. HOPE: You see, in the field of political reform, when the western world moved into the position of giving everybody the ballot, they kindled a fire whose consequences were not realized by many people. In every country it is the aim of a political party to get into power, and it has become the practice for this purpose to prey on the ignorance of the prejudices of people. Take, for instance, the theory of the welfare state. I am not opposed to welfare, but I feel that we should not move into certain welfare fields in a big way until our production efficiency is pretty high. When we are getting fairly wealthy we can afford to do these things, but if we are a relatively poor nation and, through the political pressure of our people, we try to give them all these welfare items, we are in for trouble.

Hon. Mr. EULER: You are not indicating that Canada is poor?

Dr. HOPE: No. The nation that goes far in that direction is going to make itself a high-cost area, because it has not the surplus to do these things. But wealthy countries like Canada and the United States can go a long way in that direction without making themselves in a serious degree high-cost countries. I think that today some countries in Europe, because of political pressure and Communist influence, have been forced to go too far in these things before they have created adequate wealth for the purpose, and that this has made them high-cost countries. We cannot offer any solution excepting to trust that they will not go too far.

Hon. Mr. CRERAR: Does not this mean that they think more of welfare than they do of freedom?

Dr. HOPE: Well, I do not think so, Senator. I think that a lot of them do not realize that. In any case it does not necessarily mean a loss of freedom. Children's allowances cannot mean loss of freedom.

Hon. Mr. CRERAR: You say that they have to carry out policies of this kind in Europe in order to avoid strengthening Communist influence. I think most people would say "Well, we want the welfare, and whether or not we lose our freedom is a matter of secondary importance to us."

Hon. Mr. HAIG: I do not think they go that far.

Dr. HOPE: I doubt very much if they do that much logical thinking about it.

Hon. Mr. HAIG: I think what you said originally is correct. It is the political opposition that proposes something which forces the government, whatever it happens to be, to make concessions which maybe it would not make if it were not for the pressure of the other side.

Dr. HOPE: We have a classical example in France. France has had more inflation in the post-war world than probably any country in Europe. Its situation has been the most unsettled. For a while the Communist vote amounted to about 30 per cent; and any suggestion to increase the income tax or corporation taxes or do anything which might tend a little to cramp the style of this or that interest was not done. So the people rise in rebellion, throw out the government, and cabinet changes occur almost every week. So the government tends not to balance the budget, and to be soft and easy, to keep in power. At present the price level is almost astronomical. There are the de Gaullist and the Communist parties always trying to get in and playing on the prejudices of the people, promising them heaven and earth, and they listen to this kind of thing. There is the trouble.

Hon. Mr. HAIG: We are trying to listen to what Dr. Hope is saying, but there are two people over here who are engaged in conversation. I cannot hear, and I object to the conversation.

Dr. HOPE: Mind you, I may sound pretty pessimistic, but I would not like to leave that impression. I think there are a lot of thinking people in the world—in Great Britain, Canada, United States, all our countries—that are perhaps realizing more clearly today the dangers of what we have been talking about than they did, say, ten years ago. I feel very confident that there is now a little more knowledge as to how far we can go in some of these measures, and possibly people are getting a little more sensible and are not swayed too much by what oppositions say of the governments of the day. And those of us who have a little more education than the rest of the fellows have should try to point some of these things out. It helps a little, anyway. I think the Americans are beginning to see the light of day.

Hon. Mr. CRERAR: That means that you have a great deal of faith in the common sense of the people.

Dr. HOPE: Yes.

Hon. Mr. CRERAR: I have, too.

Dr. HOPE: And I think with wider knowledge, more discretion, more talk, more writing, we will get out of this without too serious results.

Hon. Mr. EULER: A little more publicity of the common-sense ideas that are expressed in the Senate of Canada might be good!

Dr. HOPE: This report which I quoted from, the O.E.C. Report for 1952, does not mince matters. The representatives of the various countries tell them bluntly what to expect. That report has had quite widespread reading in Europe. So I think possibly we have a chance of moving in the right direction, and of facing successfully these impending crises.

Hon. Mr. CRERAR: A little more courageous leadership in Europe might help.

Hon. Mr. EULER: Anywhere.

Dr. HOPE: Yes. I suppose if a man is very influential, and can swing people like Roosevelt did one time.

Hon. Mr. LAMBERT: Bearing on the point Dr. Hope made about the more optimistic aspects of the situation: he made the point earlier—and I think he was correct in what he said—that the trend of political development in Europe has been a social democratic development, away from the older individualistic and, perhaps, more democratic—if you like to use that term—organization of those countries. With that trend to establish social democracy, how are you going to solve the problem of getting action from the so-called governments of those countries? The people may have these aspirations you are speaking about, and more knowledge, but there is a great gap between the rank and file of the people in whatever they may think and feel, and their governments. That, I should think, is true on this side, where we have more professedly democratic institutions than Europe has today. The gap between individual thinking on this subject on the part of the rank and file and the governments that are supposed to respond to them—is not that the problem?

Dr. HOPE: In other words, get the people informed, and then the people will put pressure on the government?

Hon. Mr. LAMBERT: That is the point.

Dr. HOPE: That is correct, yes.

Hon. Mr. LAMBERT: What I am coming to is the organization of the people themselves in expressing these ideas that you have given.

Organizations like your own, the Federation of Agriculture, the Canadian Manufacturers Association and labour unions are relying today largely on the government. But is there not a job to be done in connection with this enlightening process you are speaking of among these groups of people? There used to be a free trade organization in this country, and there certainly was one in the Old Country many years ago. But what is to prevent the organized movements in Canada from promoting something of common interest to all?

Hon. Mr. EULER: The trouble is they don't agree among themselves.

Hon. Mr. LAMBERT: Then there would not be any difficulty about the government taking action.

Dr. HOPE: I think a wise government will always do what the people want done; if it is not wise, then out it goes. The government can give cautious leadership, always counting noses. I believe you are correct in that if the people are informed and well enough organized, their views will be put forward to the government. You referred to the free trade league we had at one time. Of course, all our organizations are organized for a special interest.

Hon. Mr. LAMBERT: Put it another way: If it were possible to have a referendum among the peoples of these countries on the question of peace or war, I think it is fair to assume that the vast majority would be in favour of more equitable relations among the people of the world. But how are you going to translate those aspirations into action through governments?

Anyone who supported the League of Nations, and who today promotes the cause of the United Nations, is serving the common man on the street. There is no doubt about the aspirations of the people as a whole: They want peace, but they can't get it. Why can't they get it? Simply because there is that gap that has not been closed yet. That is, the ability of the people to elect representatives who will solve their problems for them. I think there is a need for the people resting on their own resources and organizations, and not on the government. The organized groups should co-operate, even though seemingly they may be opposed to each other economically.

Hon. Mr. BURCHILL: I have been very much impressed by the able presentation made by Dr. Hope, and I am reminded at this time of the youth of our country which are attending the universities, not only on this continent but in Europe, England and the world over. How much of this information which you mention is being made available to our university students? I would think

that one of the best channels for distribution of such information would be through high school and college students. In that way the youth of today would be thinking about these problems and their future solution.

Dr. HOPE: I would say that the students in universities probably get more of it than do people in most places. They are well informed through their courses in political science and economics.

Hon. Mr. BURCHILL: But is it the right kind of stuff?

Dr. HOPE: I think basically it is. They are a somewhat small group of people, actually.

Hon. Mr. MACLENNAN: But they can get in touch with larger groups.

Dr. HOPE: That is true, they can. As you well know, the communists start their program, not by getting in touch with the common man, but by appealing to the intellectuals. The labour movement of England, for instance, started with the intellectuals. Communism in India today is being started with the intellectuals of that country. They feel that when they can convince the intellectuals, the rest of the people will look up to them and listen to them, and then the doctrine will be spread down to the grass roots.

Hon. Mr. EULER: Is the press not one of the vital channels for the spreading of information in the country today?

Dr. HOPE: The press is very important, that is true; and also the teachers.

Hon. Mr. CRERAR: I agree with the remark made by Dr. Hope a few minutes ago, that generally speaking the intellectuals are appealed to. But do they not emphasize material values rather than moral values?

Hon. Mr. HAIG: No, no. That is not what they do.

Dr. HOPE: They have a philosophical valuation, but they would not stress the material values.

Hon. Mr. EULER: Do you not think that an organization such as your own—and I am not criticizing yours—or the manufacturers' association or labour unions primarily think of material things?

Dr. HOPE: Yes. Generally speaking, however, intellectuals do not realize how complicated the world is today.

Hon. Mr. BURCHILL: That is quite true.

Dr. HOPE: I was an intellectual for a while myself, and I suppose you could say I am now half an intellectual. But basically speaking, those who occupy the classroom and the pulpits of the country do not realize the complicated machinery of the business world today. We criticize them because they are impractical, and perhaps we should not; they have not been exposed to the business world. Naturally, they can build up a fine theoretical framework of how it should work, but in the practical world it does not work. We find in labour and agricultural organizations we have to give and take to make things go.

Hon. Mr. HAIG: Senator Crerar comes from a city in which the C.C.F. movement was first started by one professor in a college in that city. He had no business sense or no experience in organization; he just had a theory and a basic moral philosophy of C.C.F. I refer to Dr. Bland of Wesley College. I was there at the time, and I know something about that particular instance. These movements are often started by intellectuals, and they are often used by the communists to start their doctrine going.

Dr. HOPE: To get back to the point of how to get a better understanding through teachers in universities and so on of the international trade problem, I think there is much activity along this line in our universities today. I have confidence that our teachers of political science are teaching basically good and sound international trade theories; but it is quite different out in the business

field. For instance, if you are raising fruit in British Columbia, and you see a special type of apple coming on to the market which you know will make a difference of \$500 for you in this year's crop, it is pretty difficult for you to be a free trader. My father used to say that it depended on what part of Canada you lived in whether or not you were a free trader. He also used to say—and Senator Crerar knew him—"if I lived on the Prairies I would be a free trader, but as I come from British Columbia, I am not."

Hon. Mr. EULER: I have known Conservatives—and I am not talking politics now—who while living in Ontario were strong protectionists, but when they went west they became free traders.

Hon. Mr. HAIG: I am one of them.

Hon. Mr. BEAUBIEN: Is it not so that a lot of western farmers are becoming protectionists today?

Hon. Mr. LAMBERT: Social democrats, I would call them.

Dr. HOPE: I think basically the west is for lower tariffs and free trade.

Hon. Mr. HAIG: Especially the Prairies.

Hon. Mr. CRERAR: If you will give me an opportunity, Mr. Chairman, I would like to elaborate for a few moments on Dr. Hope's remark of a few minutes ago about intellectuals.

The CHAIRMAN: Yes.

Hon. Mr. CRERAR: I think over the past one hundred and fifty years the thinking of the world has been tremendously influenced by intellectuals who have a materialistic conception of history—Carl Marx was one of them—and had complete oblivion to the importance of moral values. They said we can organize the world, not in the sense of the morality that was derived from the old Jewish and Christian traditions—that is just an opiate for the people—but we can through the power of the intellect reform the world and bring about a society in an everlasting state of happiness. I do think that influence has been responsible for a great deal of the trouble which exists in the world today. It started with the German philosophers, who had that concept of history, and it spread to Great Britain. One such person died just the other day in Britain. He was an intellectual materialist, and a very able man; he evolved a philosophy of free thinking, but finally found refuge in the Christian faith. I think the influence of his teaching is to be found all over Europe.

Hon. Mr. BURCHILL: We are delighted with the brief presented by Dr. Hope, and I would like to express the feelings of the committee of grateful appreciation for the information he has given to us.

Hon. Mr. HAIG: Further, I think it is the most able presentation we have had before any of our committees in a long time.

Hon. Mr. CAMPBELL: If I may, I have one or two more questions I should like to put to Dr. Hope. I gather from your presentation that your opinion is that everything must be done to encourage importation from the sterling area or to make facilities available by which the sterling area and European countries can increase their exports. Do you subscribe to that theory?

Dr. HOPE: Yes.

Hon. Mr. CAMPBELL: What in your opinion is the most effective way of doing that? Is it by lowering tariffs or by assisting these countries by some other means such as the extension of credits or giving them some leadership in the production field to increase their efficiency? What is the most effective way of helping them?

Dr. HOPE: I would think that further credits, from the point of view of helping them, is not the solution. There is a definite time limit, as it were,

on that; they have had credits for so long now that they seem to have reached their maximum benefit as a result of them. As a result of receiving credits they have improved their position, but they do not seem to be making any further headway. There is still a gap of a few billion dollars that they do not seem to be able to bridge. Therefore, the only solution is to ask them, if we lower our tariff structure and make it a little easier for them to get their goods over here, will they co-operate with us and keep their costs in line so that their goods will sell here. That is all we can do. It is an extremely difficult situation: We cannot tell them they ought to do this or ought not to do that. We know their costs are somewhat high, and perhaps they are working too few hours; and further, every time the price of goods jump five or ten per cent there is a rush to increase wages. We will have to tell them that that should not take place. We can reduce tariffs by our own power, and we can ask them to do certain things, but I do not think we can go further. The truth is that Europe could use more capital; they admit that in many places, in order to help increase their efficiency.

Hon. Mr. CAMPBELL: That is the point I was coming to.

Dr. HOPE: But the point is this, how can we persuade Canadian investors to invest their money in France, Italy, Denmark, Holland or Britain? I know someone has come up with a plan like that—we have one in our office now—which amounts to the suggestion that Canada should own Britain; that is, Canadians should buy British shares. I do not have any money to invest, but I am sure that if I were investing on a large scale I would look at alternative opportunities in Europe and in Canada, and I would take note of the boom presently taking place in Canada, and I am sure I would be inclined to put my money on Canada rather than on Europe. For one reason, they might in Italy have a confiscation of capital.

Hon. Mr. CAMPBELL: But is there not another important factor which has prevented them from increasing their efficiency and expanding their factories to which no reference has been made: I refer to the extremely high taxation that is facing industry generally throughout Europe and particularly the United Kingdom.

Dr. HOPE: That again comes by reason of a certain amount of welfarism.

Hon. Mr. CAMPBELL: The point I am making is this: Is it possible, under their system of high taxation, without credits, to bring up their plants to a point of competition in manufactured goods in the world market, even with a reduction of tariff?

Dr. HOPE: Only if they can expand. It is true that they will have to increase their efficiency through some capital expenditures. You are suggesting that even if there was some reduction in tariff, they would not be able to have the capital or the surplus to expand by reason of high taxation. The answer is partly what Mr. Butler did yesterday. You will have noticed that he was quite bold. The popular move has been that business is making too much money and there should be a heavy surtax placed on it. Most of us realize that such a policy reduces the possibility of ploughing back into the business any of the profits; and therefore, if there is to be capital, it eventually must come from the government. Britain is going to take the gamble of trying to get business to do the very thing you are suggesting, that is plough back more of its earnings, through the reduction of the kind of taxation which has prevented that very thing.

Hon. Mr. CAMPBELL: What I was trying to get at was the relationship between the importance of some form of credit and the lowering of tariffs. Is it not true that in our own country we are over-borrowing in relation to capital invested in most corporations? Or are you familiar with that situation in Canada?

Dr. HOPE: You mean that there is too much bond issue in comparison with the common stock?

Hon. Mr. CAMPBELL: Too much borrowing of money in comparison with the working assets and capital invested, which has resulted from high taxation in Canada. If that is so here, it certainly must be far worse in the United Kingdom and other European countries today.

Dr. HOPE: I am not familiar enough with that to say. There is much risk if you have a very high debt structure. But I cannot answer as to that. I know that this report mentions that in many cases European efficiency production could be stepped up here and there by a certain amount of new capital investment, but they do not hold out any hope that North America will invest there. That table shows that last year the United States invested 1.6 billion dollars in foreign loans, but when you look to see where the investments were made, you find that they were made in Canada, in Venezuela, in Bolivia, and a few other places, such as Persia, where they want oil. Virtually none went to Europe, and it is Europe that needs the money. It may be that the taxation structure you suggest might help.

Hon. Mr. CAMPBELL: I am surprised the chairman has not asked you something about gold during this discussion? But you do admit that the United States did put \$20 billion in there from 1947 on?

Dr. HOPE: Yes.

Hon. Mr. LAMBERT: What is there to show for that?

Dr. HOPE: Oh, they can show a great deal of recovery in Europe. Europe at one time was near communism. Today she is not.

Hon. Mr. LAMBERT: West Germany has shown progress.

Dr. HOPE: And Italy is in better shape. These countries were in pretty desperate shape five years ago. Britain is in a better condition too. Most people admit that things have much improved. But they seem to have reached what in an engine would be called the dead centre, when the pistons come to the dead centre, as far as they can go, without an additional push. Maybe there now needs to be something new and more vital to get it going on its own steam. Let us assume, in theory, that tomorrow the United States Government said, "We are going to reduce your taxes five billion dollars, because that is what we are giving to Europe." Automatically, you would think, it would increase the money in the pockets of the people paying the taxes. Then the government might say "We are allowing you that so that you can buy five billion dollars' worth of European goods." In theory that is the solution. Europe could send the goods over, and the United States could use the five billion dollars to buy them.

Hon. Mr. EULER: If by reason of very high taxation, we will say in Britain, it becomes impossible for industry to provide enough money to expand its business, and as a result it becomes necessary for governments instead of individuals to make these investments, are you not on the direct road to state socialism?

Dr. HOPE: Well, it depends what they do. If the government invested in such things as hydroelectric plants—like our own Ontario Hydro—I would not say it would mean that, but if the government invested in an industry which produced consumer goods, I would say yes. I do not see any indication yet that there is any suggestion of the government investing money in the consumer goods industries. That would be the beginning of a very momentous change in policy. But as long as we stick to public works I do not think the danger arises.

Hon. Mr. EULER: Well, did they not do that in Britain? They took over the steel industry.

Dr. HOPE: Yes, they took over the steel industry, but the present government is going to swing it back to private control. That is one of a few examples. They have come to the point where, in Britain, they consider, and have long considered in Britain that coal is a public utility.

Hon. Mr. EULER: They started to do it in Saskatchewan, did they not?

Dr. HOPE: Yes. They back-tracked a bit there.

Hon. Mr. EULER: Brick yards.

Dr. HOPE: Yes. And they back-tracked there a bit, too. Britain's policy lately has been to try to earmark some money to send to Canada, even. She admits that she wants capital to build up enterprise in Britain, but she is allowing investors to put up a certain amount of money to get some of the "gravy" in Canada.

Hon. Mr. CAMPBELL: But does not that establish that foreign investment, to Britain, has always been just as important as trade?

Dr. HOPE: Yes.

Hon. Mr. CAMPBELL: Is that not one of their great problems,—that they have lost so many of their foreign investments?

Dr. HOPE: And are trying to build them up again.

Hon. Mr. CAMPBELL: Yes.

Dr. HOPE: That is right. In some cases their goods cannot get in here, and they may think it better to put up a factory over here. There is a great deal of that going on. They have it in mind to build more branch factories if they cannot export their goods and sell them here.

The CHAIRMAN: Do any other honourable senators wish to say anything?

Hon. Mr. EULER: I move a very hearty vote of thanks to Dr. Hope for his excellent presentation.

Hon. Mr. CRERAR: I will be very glad to second that.

The CHAIRMAN: Yes, Dr. Hope, you have given us a wonderful brief and a great deal of information and food for thought. I know it is going to help the work of the committee in the future.

Dr. HOPE: Thank you very much.

Whereupon the committee adjourned.

